

**MINUTES OF THE
TAX REFORM TASK FORCE**

Monday, November 7, 2005 – 8:00 a.m. – Room W135 House Building

Members Present:

Sen. Curtis S. Bramble, Senate Chair
Rep. Wayne A. Harper, House Chair
Sen. Mike Dmitrich
Sen. Howard A. Stephenson
Pres. John L. Valentine
Rep. Ralph Becker
Rep. John Dougall
Rep. Gregory H. Hughes
Rep. Todd E. Kiser
Rep. Rosalind J. McGee
Rep. Merlynn T. Newbold
Rep. Stephen H. Urquhart
Mr. Neil H. Ashdown
Comm. Pam R. Hendrickson

Members Absent:

Rep. Gordon E. Snow

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Angela D. Oakes, Associate General Counsel
Ms. Rebecca L. Rockwell, Associate General Counsel
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present, copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. Task Force Business

Chair Harper called the meeting to order at 8:19 a.m.

MOTION: Comm. Hendrickson moved to approve the minutes of the Salt Lake City, Vernal, Price, Provo, Cedar City, and St. George Public Hearings. The motion passed unanimously with Sen. Dmitrich, Pres. Valentine, Rep. Becker, Rep. Hughes, and Mr. Ashdown absent for the vote.

2. Review and Adoption of Task Force Recommendations

Ms. Oakes distributed and discussed "Short Summary of Voted Leeway Proposals," 2006 General Session draft legislation "Voted Leeway Amendments," 2006 General Session draft legislation "Limited Exemptions to Truth in Taxation," and 2006 General Session draft legislation "School Districts - Limited Amendments to Truth in Taxation." She explained the differences between the three draft bills.

MOTION: Comm. Hendrickson moved to recommend 2006 General Session draft legislation "School Districts - Limited Amendments to Truth in Taxation" to the Revenue and Taxation Interim Committee.

Sen. Stephenson proposed amending the motion to change the years of exemption to truth in taxation from eight years to four years.

Mr. Newton said that changing the years of exemption to truth in taxation from eight years to four years would not impact the decision of districts to hold truth in taxation hearings.

SUBSTITUTE MOTION: Sen. Stephenson moved to amend 2006 General Session draft legislation "School Districts - Limited Amendments to Truth in Taxation" by changing the years of exemption from truth in taxation on line 525 from eight years to four years. The motion passed with Rep. McGee voting in opposition and Sen. Dmitrich, Pres. Valentine, Rep. Becker, Rep. Dougall, Rep. Hughes, and Mr. Ashdown absent for the vote.

MOTION: Comm. Hendrickson moved to recommend 2006 General Session draft legislation "School Districts - Limited Amendments to Truth in Taxation" as amended to the Revenue and Taxation Interim Committee. The motion passed with Rep. McGee voting in opposition and Sen. Dmitrich, Pres. Valentine, Rep. Becker, Rep. Dougall, Rep. Hughes, and Mr. Ashdown absent for the vote.

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax Exemption for Transportation" and 2006 General Session draft legislation "Sales and Use Tax Exemption for Certain Transportation of Passengers."

MOTION: Rep. Newbold moved to recommend 2006 General Session draft legislation "Sales and Use Tax Exemption for Transportation" to the Revenue and Taxation Interim Committee. The motion passed unanimously with Sen. Stephenson, Pres. Valentine, Rep. Becker, Rep. Dougall, and Mr. Ashdown absent for the vote.

Ms. Oakes distributed and discussed 2006 General Session draft legislation "Property Tax - Circuit Breaker Qualifying Limits."

MOTION: Sen. Dmitrich moved to amend 2006 General Session draft legislation "Property Tax - Circuit Breaker Qualifying Limits" by changing line 38 to read "on or after January 1, 1943" and to recommend this bill to the Revenue and Taxation Interim Committee. The motion passed unanimously with Sen. Stephenson, Pres. Valentine, Rep. Becker, and Mr. Ashdown absent for the vote.

3. Other Tax Issues

Mr. Keith Prescott, CPA, summarized Governor Huntsman's individual income tax proposal.

Sen. Bramble asked Mr. Prescott if there were any similarities between the Governor's proposal and the individual income tax legislation recently sponsored by Rep. Jones and Rep. Mascaro. Mr. Prescott replied that the only similarity is that both proposals attempt to increase individual income tax revenue. He said that the Governor's proposal will stimulate economic development through a simple individual income tax system with a low rate.

Rep. Urquhart summarized his individual income tax proposal. He explained it would be a simple and straightforward individual income tax cut for the Utah citizens.

Rep. Dougall presented "Income Tax Reform." He also distributed and discussed "Individual Income Tax Sample Cases." He explained that the policy choices before the Task Force are how to treat charitable contributions, mortgage interest, and some type of credit based on income.

Sen. Valentine said that he appreciates Rep. Dougall submitting this proposal to the Task Force.

MOTION: Rep. Dougall moved to continue the discussion of the individual income tax proposals at the next meeting. The motion passed unanimously with Rep. Becker absent for the vote.

Mr. Dean explained the two proposals to create an income tax credit for food purchases and to eliminate the sales and use tax on unprepared food. Task Force discussion followed.

Mr. Jim Olsen, Utah Food Industry Association and Utah Retail Merchants Association, explained that 16 to 20 percent of sales in grocery stores are for nonfood or prepared food items. He also clarified the definition of food and food ingredients.

Mr. Roger Tew, Utah League of Cities and Towns, spoke in opposition to removing the sales and use tax on food because of the impact it would have on municipalities that rely on sales and use taxes for revenue.

Mr. Wayne Jones, Executive Director, Independent Auto Dealers Association of Utah, said that increasing the sales and use tax on nonfood items would negatively effect low income and middle income consumers who struggle to purchase essential transportation.

Mr. Karl Hendrickson, Utah Association of Counties, asked the Task Force to consider the effects that removing the sales and use tax on food would have on the county option sales tax, which is imposed county-wide on all sales.

Ms. Linda Hilton, Coalition of Religious Communities, said that food stamps do not cover enough of the food purchases that low income residents make and that food stamps only cover food items, not nonfood items. She said that even if the sales tax is raised on nonfood items, removing the sales and use tax on food will benefit low income residents.

Rep. Newbold said that removing the sales and use tax on food would be a tax cut for everyone in the state.

MOTION: Pres. Valentine moved to remove the sales and use tax on food with no increase in sales and use tax rates.

SUBSTITUTE MOTION: Sen. Bramble moved to continue the discussion of the removal of sales and use tax on food at the next meeting. The motion passed unanimously with Rep. Becker absent for the vote.

Mr. Brad Rich, SkyWest Airlines, gave a brief history of the company.

Mr. Troy Larkin, CITTA, Inc., asked that the Task Force consider exempting SkyWest Airlines from property tax on their aircraft and to replace this tax with a uniform fee based on value. He distributed and discussed "Keeping our Clients Competitive Through Obtaining Equitable Taxation."

Mr. John Green, SkyWest Airlines, spoke to the Task Force. He explained that his company currently pays about \$6 million per year in property taxes and under this proposal it would pay about \$3 million per year in property taxes. He said that nearly all of its flights are in connection with United Airlines and Delta Airlines. He said that these two partners are concerned with controlling costs to remain competitive.

Rep. Kiser asked how many employees Skywest has in Utah. Mr. Rich replied that 2,800 of the company's 13,000 employees reside in Utah. Rep. Kiser asked how many new employees would actually reside in the state if Skywest were to expand its economic presence.

Mr. Rich said that Skywest desires to increase its business presence in Utah as opposed to other states in which it operates. Other states are offering the company incentives to invest in those states.

Sen. Valentine asked if Skywest would experience a reduction in its corporate franchise and income tax liability if the single sales factor apportionment formula were adopted. Mr. Green said that Skywest would pay \$200,000 less in corporate franchise and income taxes under this proposal.

Sen. Stephenson said that while it is appropriate for the Task Force to review this proposal it may have to proceed without task force involvement.

Rep. Harper questioned whether the proposal constitutes special legislation and whether it would possibly violate the commerce clause of the United States Constitution.

MOTION: Sen. Stephenson moved to direct staff to draft legislation to exempt from the sales and use tax sales of certain business inputs with an economic life of three or more years for certain industries. The motion passed unanimously with Pres. Valentine, Rep. Becker, Rep. Dougall, Rep. Urquhart, and Mr. Ashdown absent for the vote.

MOTION: Sen. Stephenson moved to direct staff to draft legislation to impose the sales and use tax on sales of assisted coin-operated car washes, laundry facilities, and amusement devices and to exempt from the sales and use tax sales of unassisted coin-operated car washes, laundry facilities, and amusement devices. The motion passed unanimously with Pres. Valentine, Rep. Becker, Rep. Dougall, Rep. Urquhart, and Mr. Ashdown absent for the vote.

Rep. Harper distributed and discussed "Uniform Statewide Sales Tax Rate" and "Comparison of State and Local Sales Taxes."

Mr. Jim Olsen, Utah Food Industry Association and Utah Retail Merchants Association, spoke in favor of a uniform sales and use tax rate. He said that in order for the Streamlined Sales and Use Tax Agreement to be implemented, merchants either need complex software compute multiple rates or one sales and use tax rate. He said having one rate would eliminate human error. He said that when merchants move from taxing point of sale to point of delivery, it increases the chance for human error.

Mr. Roger Tew and Mr. Lincoln Shurtz, Utah League of Cities and Towns, said that the League does not support or oppose any option for a single statewide sales and use tax rate. They said that their proposal was simply a suggestion on how a single statewide rate could be implemented.

MOTION: Sen. Bramble moved to direct staff to draft legislation that would incorporate Option 1 from the document "Uniform Statewide Sales Tax Rate." The motion passed with Rep. McGee voting in opposition and Pres. Valentine, Rep. Becker, Rep. Dougall, and Mr. Ashdown absent for the vote.

Mr. Roger Tew, Utah League of Cities and Towns, spoke in favor of phasing out the hold harmless provision and retaining the 50/50 distribution formula.

Mr. Karl Hendrickson, Utah Association of Counties, spoke in favor of moving away from the 50/50 distribution formula to a 100% point of population.

MOTION: Comm. Hendrickson moved to table the discussion of the distribution formula for the one percent local option sales and use tax.

SUBSTITUTE MOTION: Sen. Dmitrich moved to proceed to the next agenda item.

Sen. Dmitrich withdrew his substitute motion.

SUBSTITUTE MOTION: Sen. Bramble moved to study the local option sales and use tax distribution formula in the Revenue and Taxation Interim Committee during the 2006 interim. The motion passed with Rep. Hughes and Rep. Urquhart voting in opposition and Pres. Valentine, Rep. Becker, Rep. Dougall, and Mr. Ashdown absent for the vote.

MOTION: Sen. Stephenson moved to study the sales and use tax and property tax shift in the Revenue and Taxation Interim Committee during the 2006 interim. The motion failed with Sen. Bramble, Sen. Stephenson, Rep. Kiser, Rep. Newbold, and Comm. Hendrickson voting in favor and Pres. Valentine, Rep. Becker, Rep. Dougall, and Mr. Ashdown absent for the vote.

MOTION: Rep. Urquhart moved to table the discussion of the sales and use tax and property tax shift.

SUBSTITUTE MOTION: Sen. Bramble moved to study the sales and use tax and property tax shift in the Revenue and Taxation Interim Committee during the 2006 interim. The motion passed with Sen. Dmitrich, Rep. Hughes, and Rep. McGee voting in opposition and Pres. Valentine, Rep. Becker, Rep. Dougall, and Mr. Ashdown absent for the vote.

Mr. Howe reviewed with the Task Force a proposal submitted by the cable television industry to grant a refundable credit against the state tax on cable and satellite television for franchise fees paid to municipalities.

MOTION: Rep. McGee moved to proceed to the next agenda item.

SUBSTITUTE MOTION: Rep. Newbold moved to direct staff to draft legislation to implement this proposal. The motion passed with Rep. McGee voting in opposition and Pres. Valentine, Rep. Becker, Rep. Dougall, and Mr. Ashdown absent for the vote.

Sen. Bramble distributed and reviewed "Chapter 4 Community Development and Renewal Act." He explained that this is the first draft of legislative language to implement the recommendations of the Utah League of Cities and Towns with regards to the Redevelopment Agency Act. He encouraged Task Force members to review this draft and that it would be considered again at the next Task Force meeting.

MOTION: Rep. McGee moved that staff provide all background information connected with the next meeting to the Task Force and the public by November 18, 2005.

SUBSTITUTE MOTION: Sen. Bramble moved to adjourn the meeting. The motion passed with Rep. Harper and Rep. McGee voting in opposition and Pres. Valentine, Rep. Becker, Rep. Dougall, and Mr. Ashdown absent for the vote.

4. Other Items / Adjourn

Chair Harper adjourned the meeting at 12:15 p.m.